



EAST RAND WATER CARE COMPANY (ERWAT) NPC
(REGISTRATION NUMBER 1992/005753/08)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

General Information

Legislation governing the municipal entity's operations.	Municipal Finance Management Act (Act No. 56 of 2003) and the Companies Act (Act No. 71 of 2008). The annual financial statements have been audited in compliance with the Companies Act and Municipal Finance Management Act.
Accounting Officer	T Gopane (effective 01 September 2016) - FM Mabunda (previously acting up to the 31 August 2016)
Chief Financial Officer (CFO)	WI Louw
Directors	J Mojapelo (Chairperson until 31 May 2017) MM Mochatsi T Gopane (Managing Director from 1 September 2016) EE Themba N Koni (previously - N Sidondi) K Wall L Bokaba D Coovadia C Cornish (Chairperson from 01 June 2017)
Registered office	Hartebeesfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619
Business address	Hartebeesfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619
Postal address	P O Box 13106 Norkem Park 1631
Controlling entity	City of Ekurhuleni Metropolitan Municipality
Bankers	ABSA Bank Corporate and Investment Banking 15 Alice Lane Sandton 2196
Auditors	Auditor-General South Africa 61 Central Street, Houghton
Secretary	Z Socikwa (Current) Fushion Corporate Secretarial Services (Pty) Ltd (30 June 2016)
Company registration number	1992/005753/08
Preparer	The annual financial statements were prepared under the supervision of: WI Louw (B Compt Hons) Chief Financial Officer

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Abbreviations

PPE	Property, plant and equipment
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
mSCOA	Municipal Standard Chart of Accounts
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
CFO	Chief Financial Officer
AGSA	Auditor-General South Africa
INCA	Infrastructure Finance Corporation Limited Trading
SCM	Supply Chain Management

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Directors' Responsibility and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly represent the state of affairs of ERWAT as at the end of the financial year and the results of its operations and cash flows for the period ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout ERWAT and all employees are required to maintain the highest ethical standards in ensuring ERWAT's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in ERWAT is on identifying, assessing, managing and monitoring all known forms of risk across ERWAT. While operating risk cannot be fully eliminated, ERWAT endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors has reviewed ERWAT's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, they are satisfied that ERWAT has access to adequate resources to continue in operational existence for the foreseeable future.

ERWAT is wholly dependent on City of Ekurhuleni Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that ERWAT is a going concern and that the City of Ekurhuleni Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the directors are primarily responsible for the financial affairs of ERWAT, they are supported by the entity's internal auditors.

The external auditors are responsible for auditing ERWAT's annual financial statements. The annual financial statements have been examined by ERWAT's external auditors and their report is presented in the Annual Report.

The annual financial statements set out on page 6 to 56, which have been prepared on the going concern basis, were approved by the board of directors on 31 August 2017 and were signed on its behalf by:

Director
C Cornish (Chairperson)

Director
T Gopane (Managing Director)

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Directors' Report

The directors submit their report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

ERWAT is a municipal entity. The principal activity of the entity is the conveyance and treatment of waste water and the provision of related engineering services and products. The operating results and state of affairs of the Entity are set out in the attached annual financial statements and annual report, in full.

Net surplus of the entity was R153,482,942 (2016: surplus R113,222,714).

2. Going concern

We draw attention to the fact that at 30 June 2017, the entity had an accumulated surplus of R1,499,543,684 and that the entity's total assets exceed its liabilities by R1,499,543,684.

The existence of ERWAT is dependent on the continued support of City of Ekurhuleni Metropolitan Municipality by way of service charges for treatment of waste water and the provision of related engineering services paid each year in terms of a service delivery agreement entered into between ERWAT and City of Ekurhuleni Metropolitan Municipality.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year that would require adjustment to or disclosure in the financial statements.

4. Share capital / contributed capital

ERWAT does not have share capital since it was founded as a Non-Profit Company.

5. Secretary

Z Socikwa has been appointed as company secretary of the entity from 01 August 2016. Fushion Corporate Secretarial Services (Pty) Ltd was appointed as company secretary until 30 July 2016.

Business address - Z Socikwa

Hartebeesfontein Office Park
R25 (Bapsfontein/Bronkhorstspuit)
Kempton Park
1619

Business address - Fushion Corporate Secretarial
Services (PTY) Ltd

Corporate Corner 2, Unit 2
Marco Polo Street
Centurion
0169

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in rands	Note(s)	2017	Restated 2016
Assets			
Current Assets			
Trade debtors from exchange and non-exchange transactions	3	118,610,031	76,536,084
Receivables from exchange transactions	4	4,450,806	4,875,010
VAT receivable	46	19,329,066	22,895,482
Other financial assets	5	8,119,485	8,513,935
Cash and cash equivalents	6	157,781,702	305,353,331
		308,291,090	418,173,842
Non-Current Assets			
Property, plant and equipment	7	1,950,957,554	1,722,626,028
Intangible assets	8	6,579,601	2,272,046
		1,957,537,155	1,724,898,074
Total Assets		2,265,828,245	2,143,071,916
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	92,987,192	115,153,527
Provisions	10	33,525,324	24,419,038
Current portion of long-term borrowings	11	55,250,765	34,320,812
Current portion of financial lease obligation	12	238,932	303,959
		182,002,213	174,197,336
Non-Current Liabilities			
Non-current portion of long-term borrowings	11	549,753,950	598,391,157
Non-current portion of finance lease obligation	12	358,398	597,329
Employee benefit obligation	13	34,170,000	29,404,000
		584,282,348	628,392,486
Total Liabilities		766,284,561	802,589,822
Net Assets		1,499,543,684	1,340,482,094
Accumulated surplus		1,499,543,684	1,340,482,094

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in rands	Note(s)	2017	Restated 2016
Revenue			
Service charges	15	645,216,446	575,532,723
Development contribution	16	85,408,228	40,228,486
Other income	17	114,955,315	109,848,612
Interest received	18	16,311,677	13,048,316
Dividends received		554,648	149,705
Government grants & subsidies	19	50,000,000	50,000,000
Total revenue		912,446,314	788,807,842
Expenditure			
General Expenses	20	(74,141,383)	(64,845,110)
Employee related costs	21	(261,852,768)	(232,309,608)
Loss on fair value adjustment		(700,128)	(33,120)
Debt impairment	22	(1,274,174)	(293,121)
Depreciation and amortisation	23	(60,698,073)	(55,260,644)
Finance costs	24	(66,605,207)	(54,490,653)
Bulk purchases	25	(194,282,408)	(158,765,235)
Repairs and maintenance, Cleaning and Consumables	44	(98,469,794)	(105,666,806)
Total expenditure		(758,023,935)	(671,664,297)
Operating surplus		154,422,379	117,143,545
Loss on disposal of assets		(939,437)	(3,920,820)
Surplus for the year		153,482,942	113,222,725

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in rands	Accumulated surplus	Total net assets
Balance at 01 July 2015	1,227,259,380	1,227,259,380
Surplus for the year	113,254,142	113,254,142
Prior period error - affecting performance (Note 30)	(31,428)	(31,428)
Restated surplus 30 June 2016	113,222,714	113,222,714
Balance at 01 July 2016	1,340,482,094	1,340,482,094
Changes in net assets		
Correction of prior period error in Property, Plant and Equipment	5,578,648	5,578,648
Net income (losses) recognised directly in net assets	5,578,648	5,578,648
Surplus for the year	153,482,942	153,482,942
Total recognised income and expenses for the year	159,061,590	159,061,590
Total changes	159,061,590	159,061,590
Balance at 30 June 2017	1,499,543,684	1,499,543,684

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in rands	Note(s)	2017	Restated 2016
Cash flows from operating activities			
Receipts			
Service charges		645,216,446	575,532,723
Development contribution		4,926,167	40,228,486
Grants		49,999,635	50,000,000
Interest income	18	16,311,677	13,048,316
Dividends earned		554,648	149,705
Other receipts		156,419,237	105,204,802
		873,427,810	784,164,032
Payments			
Employee costs		(247,842,258)	(226,862,122)
Suppliers and other		(389,537,157)	(270,925,998)
Finance costs		(66,350,037)	(54,204,968)
Other cash item		(305,678)	-
		(704,035,130)	(551,993,088)
Net cash flows from operating activities	27	169,392,680	232,170,944
Cash flows from investing activities			
Acquisition of property, plant and equipment		(283,906,970)	(240,689,559)
Proceeds from sale of property, plant and equipment		99,930	101,520
Acquisition of other intangible assets		(4,890,888)	(443,523)
Net cash flows from investing activities		(288,697,928)	(241,031,562)
Cash flows from financing activities			
Long - term borrowing raised		2,093,580	233,059,731
Repayment of long - term borrowing		(29,800,834)	(5,639,111)
Net finance lease payments		(559,127)	(471,264)
Net cash flows from financing activities		(28,266,381)	226,949,358
Net increase in cash and cash equivalents		(147,571,629)	218,088,738
Cash and cash equivalents at the beginning of the year		305,353,331	87,264,592
Cash and cash equivalents at the end of the year	6	157,781,702	305,353,330

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in rands

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Service charges	645,216,446	-	645,216,446	-		645,216,446	645,216,446		-	100 %	100 %
Investment revenue	2,040,000	-	2,040,000	-		2,040,000	16,866,325		14,826,325	827 %	827 %
Other own revenue	123,808,016	-	123,808,016	-		123,808,016	200,363,543		76,555,527	162 %	162 %
Total revenue (excluding capital transfers and contributions)	771,064,462	-	771,064,462	-		771,064,462	862,446,314		91,381,852	112 %	112 %
Employee related costs	(282,398,683)	-	(282,398,683)	-	-	(282,398,683)	(261,852,768)	-	20,545,915	93 %	93 %
Debt impairment	(55,800)	-	(55,800)		-	(55,800)	(1,274,174)	-	(1,218,374)	2,283 %	2,283 %
Depreciation and amortisation	(38,832,463)	-	(38,832,463)		-	(38,832,463)	(60,698,073)	-	(21,865,610)	156 %	156 %
Finance charges	(51,055,073)	-	(51,055,073)	-	-	(51,055,073)	(66,605,207)	-	(15,550,134)	130 %	130 %
Bulk purchases	(195,936,817)	-	(195,936,817)	-	-	(195,936,817)	(194,282,408)	-	1,654,409	99 %	99 %
Other expenditure	(202,785,626)	-	(202,785,626)	-	-	(202,785,626)	(174,250,742)	-	28,534,884	86 %	86 %
Total expenditure	(771,064,462)	-	(771,064,462)	-	-	(771,064,462)	(758,963,372)	-	12,101,090	98 %	98 %
Surplus/(Deficit)	-	-	-	-		-	103,482,942		103,482,942	100 %	100 %
Transfers recognised - capital	50,000,000	-	50,000,000	-		50,000,000	50,000,000		-	100 %	100 %
Surplus (Deficit) after capital transfers and contributions	50,000,000	-	50,000,000	-		50,000,000	153,482,942		103,482,942	307 %	307 %
Surplus/(Deficit) for the year	50,000,000	-	50,000,000	-		50,000,000	153,482,942		103,482,942	307 %	307 %

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Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in rands

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources											
Total capital expenditure	336,206,441	-	336,206,441	-		336,206,441	289,173,551		(47,032,890)	86 %	86 %
Sources of capital funds											
Transfers recognised - capital	50,000,000	-	50,000,000	-		50,000,000	50,000,000		-	100 %	100 %
To be determined	182,397,034	-	182,397,034	-		182,397,034	-		(182,397,034)	- %	- %
Borrowing	103,809,407	-	103,809,407	-		103,809,407	2,093,580		(101,715,827)	2 %	2 %
Internally generated funds	-	-	-	-		-	237,079,971		237,079,971	- %	- %
Total sources of capital funds	336,206,441	-	336,206,441	-		336,206,441	289,173,551		(47,032,890)	86 %	86 %

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Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in rands

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	111,170,201	-	111,170,201	-		111,170,201	169,392,680		58,222,479	152 %	152 %
Net cash from (used) investing	(336,206,441)	-	(336,206,441)	-		(336,206,441)	(288,697,928)		47,508,513	86 %	86 %
Net cash from (used) financing	74,232,466	-	74,232,466	-		74,232,466	(28,266,381)		(102,498,847)	(38)%	(38)%
Net increase/(decrease) in cash and cash equivalents	(150,803,774)	-	(150,803,774)	-		(150,803,774)	(147,571,629)		3,232,145	98 %	98 %
Cash and cash equivalents at the beginning of the year	85,209,884	-	85,209,884	-		85,209,884	305,353,331		220,143,447	358 %	358 %
Cash and cash equivalents at year end	(65,593,890)	-	(65,593,890)	-		(65,593,890)	157,781,702		(223,375,592)	(241)%	(241)%

The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 01 July 2016 to 30 June 2017.

The budget and accounting bases are the same: both are on the accrual basis. The financial statements are prepared using a classification on the nature of expenses in the statement of financial performance.

The variances between actual amounts verse budgeted amount are explained in **note 38 Budget differences**

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Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in rands

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome 2016
2016				
Financial Performance				
Service charges				575,532,723
Investment revenue				13,198,021
Other own revenue				150,077,098
Total revenue (excluding capital transfers and contributions)				738,807,842
Employee related costs	-	-	-	(232,309,608)
Debt impairment	-	-	-	(293,121)
Depreciation and amortisation	-	-	-	(55,260,644)
Finance charges	-	-	-	(54,490,653)
Bulk purchases	-	-	-	(158,765,235)
Other expenditure	-	-	-	(174,465,867)
Total expenditure	-	-	-	(675,585,128)
Surplus/(Deficit)				63,222,714
Transfers recognised - capital				50,000,000
Surplus (Deficit) after capital transfers and contributions				113,222,714
Surplus/(Deficit) for the year				113,222,714
Capital expenditure and funds sources				
Total capital expenditure				242,343,067
Sources of capital funds				
Transfers recognised - capital				50,000,000
Borrowing				52,491,220
Internally generated funds				139,851,847
Total sources of capital funds				242,343,067

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in rands

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				232,170,944
Net cash from (used) investing				(241,031,562)
Net cash from (used) financing				226,949,358
Net increase/(decrease) in cash and cash equivalents				218,088,740
Cash and cash equivalents at the beginning of the year				87,264,592
Cash and cash equivalents at year end				305,353,332

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and related directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.1 Significant judgments and sources of estimation uncertainty

In the process of applying the entity's accounting policies, management has made the following significant accounting judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Financial assets carried at cost, amortised cost, and fair value

ERWAT assesses its financial assets carried at cost, amortised cost and fair value for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment of Receivables

The impairment for trade receivables, held to maturity investments, loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an individual basis as well as per service-identifiable categories across all debtor classes.

These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change, which may then impact estimations and may then require a material adjustment to the carrying value of receivables.

Impairment of other financial assets

ERWAT follows the guidance of GRAP 104 to determine when other financial assets are impaired. This determination requires significant judgment. In making this judgment, ERWAT evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Operating lease commitments - entity as lessor or lessee

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

Post-employment benefits

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subjects to significant uncertainty.

Impairment of property, plant and equipment

The calculation in respect of impairment of plant, property and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This is performed on an across all classes of plant, property and equipment.

Estimates and assumptions are applied in determining certain inputs to the impairment of property, plant, and equipment, including the remaining useful economic lives of assets by the entity.

Provisions, contingent liabilities and contingent assets

Management's judgment is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the note relating to - Provisions.

Useful lives of plant, property and equipment held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets is also based on management's judgment on whether the assets will be sold or used to the end of their useful lives, and an assessment of their likely condition at that time.

Budget Information

Budget information is inherently uncertain due to its forward-looking nature. Budgeted amounts are determined on the basis of past experience, as well as other specific information that might apply, including the existence of contracts that are already in effect. A comparison between the budget and actual outcomes is presented in the Statement of Comparison of Budget and Actual Amounts (Appropriation Statement).

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by ERWAT is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. ERWAT uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to ERWAT for similar financial instruments.

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Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

ERWAT reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

1.2 Presentation and functional currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets were measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation recognised on property, plant and equipment is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, and expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

The entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation starts when the asset is available for use. Work in progress is not depreciated. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets.

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Accounting Policies

1.3 Property, plant and equipment (continued)

The depreciation rates are based on the following estimated useful lives:

Item	Estimated useful life (Range in Years)
Land & buildings	
• Land	Indefinite
• Buildings	14 - 80 (Changed 2015:10 - 80)
Infrastructure	
• Waste Water Purification Works	02 - 82 (Changed 2015: 03 -82)
• Electrical components	14- 68 (Changed 2015:15 - 40)
• Mechanical components	02 - 68 (Changed 2015: 03 - 40)
• Perimeter protection	08 - 80 (Changed 2015: 08 - 27)
• Roads	25 - 68 (Changed 2015: 25 - 57)
• Leased plant	13 - 57 (Changed 2015: 13 - 68)
Furniture and fixtures	
• Furniture and fittings	05 - 80
• IT equipment	04 - 23
• Office equipment	05 - 35
• Leased equipment	03 - 04
Motor vehicles	06 - 27
Plant and machinery	05 - 29

Work in progress represents capital expenditure incurred on projects/assets under construction, not yet completed or not yet available for use at period end. Work in progress is not depreciated.

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an asset's carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the asset's recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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Accounting Policies

1.4 Intangible assets (continued)

Amortisation recognised on intangible assets is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, and expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets

Intangible assets are subsequently measured at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Estimated Useful life (Range in Years)
Computer software	01 - 23 (Changed: 2015: 05 - 23)

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is: cash; a residual interest of another entity; or a contractual right to (i) receive cash or another financial asset from another entity; or (ii) exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity

- a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- (i) the entity designates at fair value at initial recognition or
 - (ii) are held for trading.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability

- b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

- c) Financial instruments at fair value comprise financial assets or financial liabilities that are:

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Accounting Policies

1.5 Financial instruments (continued)

- (i) derivatives;
- (ii) combined instruments that are designated at fair value;
- (iii) instruments held for trading. A financial instrument is held for trading if:
 - (1) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - (2) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- (iv) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- (v) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade debtors	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

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Accounting Policies

1.5 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

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Accounting Policies

1.5 Financial instruments (continued)

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability are recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability are recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Employment benefit

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Retirement funds

The entity contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

To the extent that a surplus or deficit exists, based on available information, and which may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

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Accounting Policies

The entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the entity is associated, a member (subject to the applicable conditions of service) on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the entity for the remaining portion.

1.7 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

b) Incentive bonus provision

A provision for incentive bonuses is raised. The bonuses will only be approved by the board of directors and the controlling entity if they are satisfied with ERWAT's performance at the end of the financial year.

1.8 Impairment of cash-generating assets and non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount or when the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists the entity estimates the recoverable amount or the recoverable service amount of the asset.

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Accounting Policies

1.8 Impairment of cash-generating assets and non-cash-generating assets (continued)

Factors that are taken into accounting in identifying whether an asset is impaired include external sources of information such as the technological, legal or regulatory context in which the asset is used, as well as internal sources of information such as evidence of physical damage of an asset., and significant long-term changes with an adverse effect on the entity that have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.

Irrespective of whether there is any indication of impairment, the entity also assess an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable or recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

When estimating the value in use of a cash-generating asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating asset is determined using the most appropriate of the following approaches:

- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach

Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount or recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

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Accounting Policies

1.8 Impairment of cash-generating assets and non-cash-generating assets (continued)

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.9 Revenue from exchange transactions

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised when the entity's right to receive payment is established.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:

- The entity has transferred to the buyer the significant risks and rewards of ownership.
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers, including Grants and Receipts

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Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

The entity recognises an asset in respect of transfers when the transferred resources meets the definition of an asset and satisfies the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the entity recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity discloses the nature and type of services in-kind received during the reporting period.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes land and buildings elements, the entity assesses the classification of each element separately.

Operating leases – lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Finance leases - lessee

Assets under finance lease are recognised as assets in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Any contingent rents are expensed in the period in which they are incurred.

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Accounting Policies

1.12 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. All borrowing costs are recognised as an expense in the period in which they are incurred.

1.13 Income Tax

The Entity is exempt from tax due to it being a Non-Profit Company.

1.14 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Budget information

The approved budget is prepared in accordance with legislative requirements on an accrual basis, and is consistent with accounting policies as adopted by the council of the controlling entity for the preparation of these financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30. These figures are those approved by council of the controlling entity both at the beginning and during the year, following a period of consultation with the public as part of the controlling entity's Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.18 Related parties

The disclosure of related parties is carried out on the basis of IPSAS 20 Related Party Disclosures, in terms of Directive 5 ("Determining the GRAP Reporting Framework") issued by the Accounting Standards Board.

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.18 Related parties (continued)

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

1.19 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date, the information is disclosed in the financial statements.

1.20 Commitments

Items are classified as commitments when the entity has committed itself to future transactions that will normally result in the outflow of cash.

The entity discloses commitments for each class of capital assets (PPE and Intangible assets) recognized in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not longer than one year,
- Later than one year and not longer than five years, and
- Longer than five years.

1.21 Going concern

These annual financial statements have been prepared on a going concern basis.

1.22 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.23 Change in accounting estimates

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

The effect of a change in an accounting estimate, other than to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, is recognised prospectively by including it in surplus or deficit in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, it is recognised by adjusting the carrying amount of the related asset, liability or item of net assets in the period of the change.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Accounting Policies

Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit or the surplus or deficit of both the current period and future periods. However, a change in the estimated useful life of or the expected pattern of consumption of economic benefits or service potential embodied in a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised as revenue or expense in those future periods.

1.24 Prior period error

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

The entity corrects material prior period errors retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity restates the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity restates the comparative information to correct the error prospectively from the earliest date practicable.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in rands	2017	2016
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	Not yet set	N/A
• GRAP 20: Related party Disclosures	Not yet set	Not material - mostly inline with IPSA20
• GRAP 32: Service Concession Arrangements: Grantor	Not yet set	N/A
• GRAP 108: Statutory Receivables	Not yet set	N/A
• GRAP34: Separate financial statements	Not yet set	N/A
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	Not yet set	N/A
• GRAP 109: Accounting by Principals and Agents	Not yet set	N/A
• IGRAP18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	Not yet set	N/A

3. Trade debtors from exchange and non-exchange transactions

Gross trade debtors from exchange transactions

Commercial business receivables	23,741,648	10,137,021
Related party debtors	18,609,252	37,873,133
	42,350,900	48,010,154

Gross trade debtors from non-exchange transactions

Related parties - grants and development contribution	80,482,426	31,475,052
	80,482,426	31,475,052

Less: Allowance for impairment

Commercial business - Provision for bad debts	(4,223,296)	(2,949,122)
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Total net trade debtors from exchange and non exchange transactions

Commercial business receivables	20,426,807	7,187,899
Related party debtors	98,183,224	69,348,185
	118,610,031	76,536,084

Ageing of Commercial business - Trade debtors from exchange transactions

Current (0-30 Days)	8,581,246	4,763,508
31 - 60 Days	3,119,380	1,419,353
61 - 90 Days	2,129,047	1,051,057
91- 120+ Days	9,911,975	2,903,103
Sub-total	23,741,648	10,137,021
Less: Allowance for impairment	(4,223,296)	(2,949,122)
Total	19,518,352	7,187,899

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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3. Trade debtors from exchange and non-exchange transactions (continued)

Ageing of Related party Trade debtors from exchange transactions

Current (0 -30 days)	1,878,709	3,343,022
31 - 60 days	523,934	810,996
61 - 90 days	-	15,420,229
91 - 120+ days	16,206,610	18,298,887
Sub-total	18,609,253	37,873,134
Less: Allowance for impairment	-	-
Total	18,609,253	37,873,134

Ageing of Related party Trade debtors from non-exchange transactions

Current (0 -30 days)	2,493,955	8,218,326
31 - 60 days	52,410,069	-
61 - 90 days	1,012,829	6,498,726
91 - 120+ days	24,565,573	16,758,000
	80,482,426	31,475,052

Ageing of Reconciliation of allowance for impairment: Exchange transactions

Current (0 -30 days)	-	(14,614)
31 - 60 days	-	(13,672)
61 - 90 days	(247,621)	(118,237)
91 - 120+ days	(3,975,675)	(2,802,599)
	(4,223,296)	(2,949,122)

There is no allowance for impairment on trade debtors for non-exchange transactions.

Reconciliation of allowance for impairment

Balance at beginning of the year	(2,949,122)	(2,693,799)
Contributions to allowance	(1,274,174)	(293,121)
Debt impairment written off against allowance	-	37,798
	(4,223,296)	(2,949,122)

Credit quality of trade debtors

The credit quality of trade debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Trade debtors past due but not impaired

Trade debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R103,920,198 (2016: R60,138,404) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	55,306,538	2,129,238
2 months past due	3,460,103	22,851,776
3 months past due	45,153,557	35,157,390
Total	103,920,198	60,138,404

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

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3. Trade debtors from exchange and non-exchange transactions (continued)

Receivables from exchange transactions encumbered

Receivables with a carrying value of R117 701 576 (2016: R76 536 084) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 11. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd as guarantee for the loan remains in effect.

4. Receivables from exchange transactions

Deposits	2,504,778	2,504,778
Prepayments	1,938,997	2,347,237
Medical Aid	7,031	22,995
	4,450,806	4,875,010

5. Other financial asset

Name of entity	Carrying amount 2017	Carrying amount 2016	Fair value 2017	Fair value 2016
Sanlam demutualisation shares	1,011,528	942,220	1,011,528	942,220
Old Mutual demutualisation shares	1,274,019	1,472,987	1,274,019	1,472,987
Old mutual unit trust	5,833,938	6,098,728	5,833,938	6,098,728
	8,119,485	8,513,935	8,119,485	8,513,935

Fair value

The fair values, determined annually at the end of the reporting period, were determined as follows:

- The fair values of listed or quoted investments are based on the quoted market price, a Level 1 input in terms of GRAP 104.120.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

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6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21,200	20,100
Bank balances	157,760,502	305,333,231
	157,781,702	305,353,331

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA bank - current account - 206 170 120	157,714,415	302,802,058	81,431,231	157,367,173	302,801,808	84,851,231
ABSA bank - salary account - 206 170 139	393,329	2,531,423	2,396,261	393,329	2,531,423	2,396,261
Petty cash and floats	-	-	-	21,200	20,100	17,100
Total	158,107,744	305,333,481	83,827,492	157,781,702	305,353,331	87,264,592

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

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7. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	48,999,461	(5,372,822)	43,626,639	48,613,798	(4,457,955)	44,155,843
Plant and machinery	33,033,316	(14,423,068)	18,610,248	30,720,832	(13,184,311)	17,536,521
Furniture and fixtures, office and computer equipment	23,492,465	(8,641,201)	14,851,264	21,457,766	(7,084,278)	14,373,488
Motor vehicles	52,294,481	(12,558,630)	39,735,851	41,535,469	(10,587,493)	30,947,976
Capital work in progress	666,228,348	-	666,228,348	786,125,602	-	786,125,602
Infrastructure: Waste water purification works	1,517,311,634	(350,038,619)	1,167,273,015	1,132,404,324	(303,823,253)	828,581,071
Leased assets	1,182,504	(550,315)	632,189	1,248,350	(342,823)	905,527
Total	2,342,542,209	(391,584,655)	1,950,957,554	2,062,106,141	(339,480,113)	1,722,626,028

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and buildings	44,155,843	385,663	-	-	(914,867)	43,626,639
Plant and machinery	17,536,521	2,309,885	(10,553)	-	(1,225,605)	18,610,248
Furniture and fixtures, office and computer equipment	14,373,488	2,270,399	(120,757)	-	(1,671,866)	14,851,264
Motor vehicles	30,947,976	12,073,223	(371,685)	-	(2,913,663)	39,735,851
Capital work in progress	786,125,602	101,622,782	-	(221,520,036)	-	666,228,348
Infrastructure: Waste water purification works	828,581,071	165,245,018	(536,372)	221,520,036	(47,536,738)	1,167,273,015
Leased assets	905,527	-	-	-	(273,338)	632,189
	1,722,626,028	283,906,970	(1,039,367)	-	(54,536,077)	1,950,957,554

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land and buildings	47,028,835	5,652,758	(9,593)	(7,796,889)	(719,268)	44,155,843
Plant and machinery	16,779,798	3,455,491	(704,088)	(62,685)	(1,931,995)	17,536,521
Furniture and fixtures, office and computer equipment	9,003,657	7,192,853	(253,692)	21,795	(1,591,125)	14,373,488
Motor vehicles	21,127,695	12,292,210	(301,872)	-	(2,170,057)	30,947,976
Capital work in progress	692,222,766	150,049,677	-	(56,146,841)	-	786,125,602
Infrastructure: Waste water purification works	753,157,742	62,300,825	(2,753,095)	63,984,620	(48,109,021)	828,581,071
Leased assets	162,567	955,730	-	-	(212,770)	905,527
	1,539,483,060	241,899,544	(4,022,340)	-	(54,734,236)	1,722,626,028

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

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7. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	786,125,602	786,125,602
Additions/capital expenditure	70,886,585	70,886,585
Transferred to completed items	(195,251,394)	(195,251,394)
	661,760,793	661,760,793

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	679,055,208	13,167,558	692,222,766
Additions/capital expenditure	146,443,769	3,605,909	150,049,678
Transferred to completed items	(56,146,842)	-	(56,146,842)
	769,352,135	16,773,467	786,125,602

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in rands	2017	2016 Restated
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7. Property, plant and equipment (continued)

Leased Assets:

The following assets included under Infrastructure, are leased assets.

Leased Assets (wastewater purification works, described by location)	Cost	Accumulated depreciation	Net book value
Benoni	437,677	(422,615)	15,062
Dekema	168,150	(48,247)	119,903
Herbert Bickley	87,719	(26,842)	60,877
Rondebult	2,000,530	(753,641)	1,246,889
Rynfield	654,554	(136,128)	518,426
	3,348,630	(1,387,473)	1,961,157

The liability is R10 per year per lease and the lease agreements' period is indefinite until both parties decide to cancel the lease agreement.

8. Intangible assets

	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	10,113,623	(3,534,022)	6,579,601	5,222,735	(2,950,689)	2,272,046

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	2,272,046	4,890,888	(583,333)	6,579,601

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	2,354,931	443,523	(526,408)	2,272,046

9. Payables from exchange transactions

Trade payables	76,982,696	92,707,243
Payments received in advanced - contract in progress	773,688	3,000,000
Deposits	11,780	13,780
Accrued bonus	5,192,918	4,860,696
Accrued overtime	2,092,582	1,470,153
Payroll creditors	73,493	23,206
Related party payables	6,783,835	10,170,353
Retention	968,634	2,729,844
Credit balances in debtors	57,449	97,955
Other payables	5,545	80,297
Unidentified deposits	44,572	-
	92,987,192	115,153,527

The directors consider the carrying amount of payables from exchange transactions to approximate fair value.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in rands	2017	2016 Restated
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10. Provisions

Reconciliation of provisions - June 2017

	Opening Balance	Additions	Utilised during the year	Total
Incentive bonus provision	12,458,099	4,743,408	-	17,201,507
Leave pay provision	11,960,939	9,517,587	(5,154,709)	16,323,817
	24,419,038	14,260,995	(5,154,709)	33,525,324

Reconciliation of provisions - June 2016

	Opening Balance	Additions	Utilised during the year	Total
Incentive bonus provision	8,024,875	4,433,224	-	12,458,099
Leave pay provision	12,372,677	8,048,983	(8,460,722)	11,960,938
	20,397,552	12,482,207	(8,460,722)	24,419,038

Incentive bonus provision

A provision for incentive bonuses is estimated at year end. The incentive bonus will be paid out if the Board of Directors and the controlling entity are satisfied with ERWAT's performance. The amount will be determined by the Board and the date of payment will only be when the board approves the incentive bonuses.

Leave pay provision

The liability is based on the total accrued leave days at year end. The payment of the leave and the amount are uncertain as employees take their leave at different stages during the year.

11. Long term borrowings

At amortised cost

Bank loan - Nedbank (Secured)	533,281,072	552,553,867
Six month Jibar plus 2.32% currently @ 2017: 10.290%(2016: 9.362%) Redeemable 30/11/2029		
Bank loan - INCA (Unsecured)	59,777,571	64,779,763
INCA @ 2017: 8.25% (2016: 8.25%) Redeemable 28/06/2024		
Bank loans - DBSA (Unsecured)	11,946,072	15,378,339
DBSA @ 2017:15% (2016:15%) Redeemable 30/09/2020		
DBSA @ 2017: 10.093% (2016: 10.12%) Redeemable 30/09/2020		
Total long term borrowings	605,004,715	632,711,969

Refer to note 3 for information relating to debtors ceded against loan.

Non-current liabilities

At amortised cost	549,753,950	598,391,157
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Current liabilities

At amortised cost	55,250,765	34,320,812
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EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

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12. Financial lease obligation		
Non-current liabilities		
Finance lease obligation	358,398	597,329
Current liabilities		
Finance lease obligation	238,932	303,959
Minimum lease payments due		
- within one year	238,932	303,959
- in second to fifth year inclusive	358,398	597,329
Present value of minimum lease payments	597,330	901,288

Finance Leases:

There are 2 Finance leases (Fidelity Security and Incity Security), relating to the rental of security equipment.

- 1) Incity Security - relates to the renting of alarm system equipment.
- 2) Fidelity Security - relates to the renting of access control system, electric fencing, and CCTV equipment.

It is entity policy to lease certain equipment under finance leases.

13. Employment benefit obligation

The amounts recognised in the statement of financial position are as follows:

Carrying value	2016/17	2015/16	2014/15	2013/14
Opening balance	29,404,000	27,978,000	22,240,000	16,087,801
Benefits paid	(1,087,000)	(970,000)	(794,000)	(550,000)
Net expense recognised in the statement of financial performance	5,853,000	2,396,000	6,532,000	6,702,199
	34,170,000	29,404,000	27,978,000	22,240,000

The obligation is due to a post-retirement medical aid benefit offered by ERWAT. In the event, when a medical aid contributing employee retires, ERWAT will continue to pay 66% of the medical aid contribution provided that the requirements of the policy are met by the employee.

The entity does not have any specific assets set aside to prefund for this liability, therefore no asset value is included in the valuation.

Net expense recognised in the statement of financial performance

	2015/16	2014/15	2013/14	2013/14
Current service cost	(1,081,000)	(974,000)	(766,000)	(1,309,000)
Interest cost	(2,989,000)	(2,494,000)	(2,091,000)	(1,901,000)
Actuarial gains / (losses)	(1,783,000)	1,072,000	(3,675,000)	(3,492,199)
	(5,853,000)	(2,396,000)	(6,532,000)	(6,702,199)

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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13. Employment benefit obligation (continued)

Key assumptions used

An actuarial valuation was performed by IAC independent actuaries and consultants at 30 June 2017, 30 June 2016 and 30 June 2015. Pricewaterhouse Coopers performed the actuarial valuation at 30 June 2014.

ERWAT can only supply 4 years of information as use was only made of actuaries for the last 4 years.

The key financial assumptions are as follows:

	2016/17	2015/16	2014/15	2013/14
Discount rates used	09,98%	10,16%	08,91%	09,40%
Medical cost inflation rates	09,58%	09,58%	08,42%	09,00%
Proportion of retiring members who are married	90,00%	90,00%	90,00%	90,00%
Average retirement age	63 years	63 years	63 years	63 years
Number of children under the age of 21	0	0	0	0

The discount rate was set with reference to the market yield on government bonds, by taking the average yields from the zero coupon government bond curve over a 15 to 20 year term.

Other assumptions

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one (1%) percentage point change in assumed health care cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Defined benefit obligation at start of period (ending 30 June 2017)	29,750,000	39,767,000
Service costs	981,000	1,589,000
Interest cost	3,241,000	3,577,000

Amounts for the current and previous four years are as follows:

	2017	2016	2015	2014
Defined benefit obligation	34,170,000	29,404,000	27,978,000	22,240,000
Surplus (deficit)	(1,783,000)	1,072,000	(3,675,000)	(3,492,199)
Experience adjustments on plan liabilities	(4,484,000)	680,000	(1,169,000)	(10,765,000)

14. Revenue

Service charges	645,216,446	575,532,723
Development contribution	85,408,228	40,228,486
Other income	114,955,315	109,848,612
Interest received - investment	16,311,677	13,048,316
Dividends received	554,648	149,705
Government grants & subsidies	50,000,000	50,000,000
	912,446,314	788,807,842

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14. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	645,216,446	575,532,723
Other income	114,955,315	109,848,612
Interest received - investment	16,311,677	13,048,316
Dividends received	554,648	149,705
	777,038,086	698,579,356

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Government grants & subsidies	50,000,000	50,000,000
Development contribution	85,408,228	40,228,486
	135,408,228	90,228,486

15. Service charges

Sewerage and sanitation charges	645,216,446	575,532,723
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16. Development Contribution

Development contribution received - controlling entity	85,408,228	40,228,486
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Development contribution is income received from City of Ekurhuleni Metropolitan Municipality for the additional construction of sewer lines for new developments that result in the increase of flows to the ERWAT waste water plants.

17. Other income

Discount received	20,590	83,425
Other income from Commercial Business	112,935,473	109,280,820
Insurance claims received	-	184,785
Learnership income	1,624,002	126,906
Sale of scrap	-	27,800
Tender Income	375,250	134,751
Bad debts recovered	-	10,125
	114,955,315	109,848,612

Included in Income from Commercial Business is income received from housing and leasing, Commercial business, Laboratory, Operations and Technical. This was previously disclosed separately. Since the implementation of mScoa the account numbers have been mapped and disclosed as one line item.

18. Interest received

Interest Income

Interest received: Bank	16,311,677	12,839,971
Interest received: Trade receivables	-	208,345
	16,311,677	13,048,316

19. Government grants & subsidies

Government grants - controlling entity	50,000,000	50,000,000
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20. General expenses		
Advertising	593,631	876,180
Assessment rates & municipal charges	2,193,401	2,880,920
Auditors remuneration	1,362,338	1,438,696
Bank charges	343,246	290,609
Computer expenses	1,670,794	1,512,535
Conferences and seminars	1,101,331	813,218
Consulting and professional fees	15,609,949	13,036,655
Donations	230,872	986,210
Entertainment	1,719,581	1,744,635
Flowers	34,327	192,462
Health and safety expense	5,075,226	3,228,364
Hiring of fleet	10,489,846	10,209,069
Laboratory charges	4,795,201	3,803,821
Lease rental	941,496	1,202,747
Marketing	1,376,527	1,320,933
Postage and courier	1,286	2,439
Printing and stationery	960,238	1,060,697
Rental of equipment	1,705,996	675,727
Research and development costs	673,335	833,878
Security	11,544,326	8,936,271
Sewerage and waste disposal	37,215	33,221
Subscriptions and membership fees	297,641	104,950
Telephone and fax	2,115,365	1,840,388
Training	2,924,663	1,757,058
Transport and freight	3,047,774	2,515,539
Travel	3,295,778	3,547,889
	74,141,383	64,845,111

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21. Employee related costs		
Basic	152,470,264	135,475,569
Bonus	11,133,038	10,156,070
Bursary schemes	93,447	669,834
Car allowance	5,393,955	5,183,598
Cell phone and data card allowance	526,835	429,510
Company contributions	45,491,871	39,382,715
Housing benefits and allowances	1,508,253	1,310,482
Leave pay provision charge	9,517,587	8,048,983
Long-service awards	297,069	130,939
Long-term benefits - incentive scheme	4,743,408	4,433,224
Overtime payments	19,814,086	18,996,831
Other short term costs	244,480	231,400
Post - retirement medical loss / (gain)	2,864,000	(98,000)
Protective clothing	869,990	1,062,834
Recruitment	1,840,913	1,754,960
Remuneration of non-executive directors	2,709,737	2,562,025
Sanlam disability fund	559,432	484,970
Workmen's compensation	1,774,403	2,093,664
	261,852,768	232,309,608

Remuneration of the Chief Executive Officer

Annual Remuneration	1,377,288	1,534,357
Travel Allowance	24,000	120,000
Contributions to UIF, Medical and Pension Funds	247,044	100,361
Telephone and data card allowance	50,378	52,800
Long service award	22,931	-
Total	1,721,641	1,807,518

The remuneration of the Chief Executive Officer is included in the employee related costs. Please refer to the note on the directors' report for a more detailed breakdown of the Chief Executive Officer.

Please refer to **note 41** for details of remuneration of each managers and directors.

Remuneration of Chief Finance Officer

Annual Remuneration	1,063,272	1,035,472
Travel Allowance	102,000	102,000
Contributions to UIF, Medical and Pension Funds	317,076	274,777
Telephone and data card allowance	40,800	40,800
Long service award	32,560	-
Total	1,555,708	1,453,049

The remuneration of the Chief Financial Officer is included in the employee related costs. Please refer to the note on the directors' report for a more detailed breakdown of the Chief Financial Officer.

Remuneration of Executive Managers - excluding Chief Financial Officer

Annual Remuneration	6,288,388	5,871,709
Travel Allowance	487,000	382,000
Contributions to UIF, Medical and Pension Funds	1,466,487	1,341,216
Telephone and data card allowance	235,800	222,300
Total	8,477,675	7,817,225

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21. Employee related costs (continued)		
Remuneration of Non - Executive Directors		
Annual Remuneration	2,479,860	2,456,810
Travel allowance	77,877	105,215
Telephone and data card allowance	152,000	-
Sub-total	2,709,737	2,562,025
In-kind benefits		
All ERWAT directors make use of company owned laptops.		
22. Debt impairment		
Reversal of impairment allowance	(2,949,122)	(2,693,799)
Contributions to debt impairment allowance	4,223,296	2,949,121
Debts impaired written off against allowance	-	37,799
	1,274,174	293,121
Refer to note 3.		
23. Depreciation and amortisation		
Property, plant and equipment	60,044,238	54,734,236
Intangible assets	653,835	526,408
	60,698,073	55,260,644
24. Finance costs		
Interest on long-term borrowings	63,361,037	51,710,968
Finance leases	255,170	285,685
Unwinding of discount - Employee benefit obligation	2,989,000	2,494,000
	66,605,207	54,490,653
25. Bulk purchases		
Electricity	125,658,849	107,036,523
Water	2,352,204	2,685,200
Sewerage purification	66,271,355	49,043,512
	194,282,408	158,765,235
26. Auditors' remuneration		
Fees	1,362,338	1,438,696

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27. Cash generated from operations		
Surplus	153,482,942	113,222,713
Adjustments for:		
Depreciation and amortisation	60,698,073	55,260,644
Loss on sale of assets	939,437	3,920,820
Finance costs - Finance leases	255,170	-
Debt impairment	1,274,174	293,121
Movements in retirement benefit liability	4,766,000	1,426,000
Movements in provisions	9,106,282	4,021,486
Fair value adjustments	700,128	33,120
Changes in working capital:		
Other receivables from exchange transactions	(41,649,742)	(4,350,689)
Debt impairment	(1,274,174)	(293,121)
Other financial assets	394,450	(60,948)
Movement in other financial assets due to fair value adjustments	(700,128)	(33,120)
Payables from exchange transactions	(22,166,348)	59,567,738
VAT	3,566,416	(836,820)
	169,392,680	232,170,944

28. Capital Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Buildings	5,609,414	2,653,315
• Computer Equipment	1,128	326,317
• Furniture and fittings	101,324	106,339
• Implements & Machinery	-	1,746,065
• Intangibles	2,117,719	4,333,827
• Office equipment	265,734	-
• Waste water works	208,974,841	144,657,335
	217,070,160	153,823,198

Total capital commitments

Already contracted for but not provided for	217,070,160	153,823,198
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This committed expenditure relates to all classes of assets as mentioned above and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	596,532	560,470
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Operating lease payments represent rentals payable by the entity for office equipment. Rentals are fixed for an average of three years. No contingent rent is payable. Some lease periods have expired, even though these office equipment are still being used by the entity. The entity is obliged to give 90 day's notice in the event that it decides to cancel these leases.

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29. Contingencies

Contingencies are broken down into the following categories:

Category A - Bank Guarantees

Category B - Guarantees

Category C - Legal matters

Contingencies relating to ESKOM:

Included in work in progress is an ESKOM contract that stipulate that if ESKOM over spends the quoted amount they will be entitled to recover the variance up to 15% of the initial quoted amount. ESKOM will refund ERWAT should the cost be less than the quoted value.

Category A - Bank Guarantees

ESKOM RAND LIMITED	954,600	954,600
ESKOM RAND LIMITED	950,000	950,000
STADSRAAD VAN SPRINGS	90,000	90,000
STADSRAAD VAN MIDRAND	94,200	94,200
STADSRAAD VAN KEMPTON PARK	80,750	80,750
ESKOM	61,400	61,400
RANDWATERRAAD	15,750	15,750
ESKOM	33,300	33,300
ESKOM	46,500	46,500
ESKOM	69,000	69,000
TOWN COUNCIL OF BENONI	163,000	163,000
STADSRAAD VAN BRAKPAN	22,000	22,000
STADSRAAD VAN HEIDELBERG	87,100	87,100
ESKOM	109,800	109,800
STADSRAAD VAN BOKSBURG	145,000	145,000
	2,922,400	2,922,400

Category B - Guarantees

STANDARD BANK 216324009 M.A. SATHEKGE	14,000	14,000
SAAMBOU BANK D MOSHOMANE (DECEASED - 2 JUNE 2012)	-	5,900
STANDARD BANK (RETIRED - 30 NOVEMBER 2013)	-	9,000
NEDPERM C P MOKGOLOBOTHO	3,800	3,800
	17,800	32,700

Category C - Legal Matters

HM Eyethu Construction and Plant Hire CC	2,300,000	-
MS Khudu	570,000	-
Total Contingencies	7,710,200	2,955,100

Notes:

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29. Contingencies (continued)

HM Eyethu Construction and Plant Hire CC:

In the 2015 financial year, ERWAT issued a tender inviting service providers to supply, deliver and install parameter fences at two of its waste water plants. HM Eyethu Construction and Plant Hire CC were among the 17 tenderers that responded and according to the outcome of the bid evaluation committee HM Eyethu Construction and Plant Hire CC was evaluated as the highest scoring bidder with a total of 98 points, and the Bid Evaluation Committee had recommended them to the Bid Adjudication Committee that the tender be awarded to HM Eyethu Construction and Plant Hire CC.

The tender, however, was not awarded to HM Eyethu due to prior work performed at Olifanstfontein Water Care Works, which was deemed unsatisfactory and not up to standard by stakeholders internal to ERWAT. HM Eyethu opened a case against ERWAT claiming loss of profit and out of pocket expenses related to the tender process.

Based on the assessment of ERWAT's attorneys, it is believed that HM Eyethu has no grounds to make the claim and that it is highly unlikely that their claim will be successful. The case had not been finalised as at 30 June 2017, and the outcome of the case is dependent on the court's decision.

MS Khudu

These a transaction entered with KS Khudu for R5 million. Subsequent to issuing the purchase order they identified that they incorrectly quoted on the item. They have under quoted by R570 000. ERWAT is of the opinion that the entity is not liable to pay the stipulated amount. MS Khudu is now claiming payment.

ERWAT wishes to have an out of court settlement or agreement with the supplier; however, no communication regarding the outcome of the matter had been concluded as at the reporting date. The settlement is dependent on the agreement with the supplier and as such ERWAT has a contingent liability as at 30 June 2017.

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30. Related parties

Relationships

Directors

Controlling entity

Refer to general information section

City of Ekurhuleni Metropolitan Municipality. Other members of the group: Brakpan Bus Company and Ekurhuleni Development Company, Pharoe Park Housing Company, Germiston Housing Company, Lethabong Housing Institute.

Related party balances

Amounts included in payables from exchange transactions regarding related parties

City of Ekurhuleni Metropolitan Municipality	6,783,835	10,170,353
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Amounts included in trade debtors from exchange transactions

City of Ekurhuleni Metropolitan Municipality	18,609,253	37,873,133
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Amounts included in trade debtors from non-exchange transactions

City of Ekurhuleni Metropolitan Municipality	80,482,426	31,475,052
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Related party transactions

Prepayment received

City of Ekurhuleni Metropolitan Municipality	773,688	3,000,000
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Purchases from related parties

City of Ekurhuleni Metropolitan Municipality	71,896,187	67,543,155
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Sales to related parties

City of Ekurhuleni Metropolitan Municipality	699,057,055	631,611,137
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Grants and development contribution

Grants - City of Ekurhuleni Metropolitan Municipality	50,000,000	50,000,000
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Development contribution - City of Ekurhuleni Metropolitan Municipality	85,408,228	40,228,487
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Guarantee and debtors ceded

The controlling entity guaranteed the Nedbank loan to ERWAT, with a carrying value of R533 281 072 (2016: R552 553 867) as disclosed in the Long-term borrowing note 11. The guarantee shall expire at 15h00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. Refer to note 3.

Remuneration - Non - Executive Directors and Executive Managers

The remuneration of the non-executive directors, executive directors and senior managers are included the employee related costs note 41.

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30. Related parties (continued)

Leased Assets:

The following works included under Infrastructure, are leased assets from related parties (City of Ekurhuleni Metropolitan Municipality).

Leased Assets	Cost	Accumulated depreciation	Net book value
Benoni	437,677	(422,615)	15,062
Dekema	168,150	(48,247)	119,903
Herbert Bickley	87,719	(26,842)	60,877
Rondebult	2,000,530	(753,641)	1,246,889
Rynfield	654,554	(136,128)	518,426
	3,348,630	(1,387,473)	1,961,157

31. Prior period errors

Change	2015/16	Total
Errors effecting Notes	-	-
Deviation from supply chain management regulations (Impracticability)	28,359,389	28,359,389
Errors effecting Balance sheet and Income statement transactions	-	-
Current portion - finance lease obligation	62,856	62,856
Non-current portion of finance lease obligation	(94,284)	(94,284)
Finance charges	31,428	31,428
Trade payables	(2,119,084)	(2,119,084)
Bulk purchases	2,119,084	2,119,084
Receivables from exchange transactions	(22,895,482)	(22,895,482)
VAR receivable	22,895,482	22,895,482
	-	-

Deviation Note:

The prior year figure for deviations was restated as there were items initially classified for 2016/17, that were approved in 2015/16. Deviations are disclosed when they are approved and not when the actual expenditure is incurred. Change is disclosed below.

Impracticability previously 2015/16 - R 8 256 159 currently 2015/16 - R36 615 548

Related parties Note:

The sales and purchases to related parties City of Ekurhuleni Metropolitan Municipality was incorrectly stated. The change is noted below.

Sales to related parties

City of Ekurhuleni Metropolitan Municipality - previously R703 502 222, currently R631 611 137. The error had no effect on the balance sheet or income statement, as only the note was affected.

Purchases from related parties

City of Ekurhuleni Metropolitan Municipality - previously R57 372 802, currently R67 543 155. The error had no effect on the balance sheet or income statement, as only the note was affected.

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31. Prior period errors (continued)

Finance lease obligation current portion, non-current portion and finance charges:

ERWAT had incorrectly over-stated the finance lease obligation in total by R31 428, which should have been expensed to finance charges. The change was current portion of finance lease obligation - R62 856, non-current portion finance lease obligation - (R94 284), and Finance charges - R31 428.

The error had also affected the Financial instruments disclosure - Interest expense - (R51 996 653).

Irregular expenditure disclosure:

In the 2016/17 financial period, it was identified that a former senior manager of ERWAT approved extensions on contracts during the 2014/15 and 2015/16 financial periods. This senior manager did not have the delegated authority to grant such an extension. The extensions are therefore irregular and will be disclosed as such in the period in which the associated costs are incurred. It was identified that an amount of R 5 079 486 was incurred during the 2015/16 financial period. As this was only identified in the 2016/17 financial period, it was not disclosed in the 2015/16 annual financial statements. In order to correct this the comparative figures have been amended and the opening balance of 2016/17 has been restated accordingly.

Bulk purchases:

Sewer charges adjustment (R 2,119,084) applicable to 2014/15 financial year was incorrectly accounted for in 2016/17 financial year.

Property, plant and equipment, and Intangible assets:

Property, plant and equipment, and Intangible assets included fully depreciated items that were still in use. Following a corrective review of the useful economic lives of the respective assets, an adjustment of R 5,578,648 was prospectively recognised directly in net assets. Retrospective application of the correction was impracticable due to the absence of key historical information following a major financial systems changeover at the entity at the start of the current financial year.

VAT receivable:

VAT receivable (2016: R 22,895,482) was disclosed under receivables from exchange transactions in the prior financial year. Given that VAT is a tax, and therefore not of exchange revenue in nature, the item is now presented in a line of its own in the statement of financial position.

32. Risk management

Capital

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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32. Risk management (continued)

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an on-going review of future commitments and credit facilities.

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	55,250,766	52,312,961	157,411,538	340,029,450
Trade and other payables*	88,811,182	-	-	-
At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	34,320,812	50,730,787	158,029,412	389,630,958
Trade and other payables*	111,555,249	-	-	-

* Excludes payments received in advanced - contract in progress

Interest rate risk

The entity's interest rate risk arises from long term-borrowings. ERWAT manages interest rate risk so that fluctuations in variable rates do not have a material impact on surplus/deficit.

The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

At year end, financial instruments exposed to interest rate risk are indicated in note 11. ERWAT's income and operating cash are substantially independent of changes in market rates.

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32. Risk management (continued)

Capital risk management

Credit Risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an on-going basis.

Price risk

The entity is exposed to equity securities price risks because of investments held by the entity and classified on the statement of financial position as other financial assets.

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 11, cash and cash equivalents disclosed in note 6.

Consistent with others in the industry, the entity monitors capital on basis of the gearing.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Other Financial Assets:

Short-term investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the National Rating Definitions. ERWAT's exposure to any one financial institution, for short-term investments, is limited as follows:

> A1+ / F1+ Short Term Rating: 5% of institution's total equity as published from time to time in the Banking Sector Credit Ratings Report;

> A1 / F1 Short Term Rating: 4% of institution's total equity as published from time to time in the Banking Sector Credit Ratings Report

Financial assets exposed to credit risk at 30 June 2017 were as follows:

Financial assets exposed to credit or price risk at year end were as follows:

Trade debtors from exchange and non-exchange transactions	117,701,576	76,536,084
Deposits	2,504,778	2,504,778
Cash and cash equivalents	157,781,702	305,353,331
Listed shares (exposed to price risk)	8,119,485	8,513,935
	286,107,541	392,908,128

Total borrowings

	2017	2016
Other financial liabilities	(605,602,046)	(632,711,969)
Less: cash and cash equivalents	157,781,702	305,353,331
Net debt	(447,820,344)	(327,358,638)
Total Net assets	1,503,043,466	1,341,080,385
Total capital	1,055,223,122	1,013,721,747

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32. Risk management (continued)

Market risk

Currency Risk

ERWAT only transacts in its functional currency (South African Rand) and its only involvement with foreign currencies relates to the situation where imported goods and services are procured. No material transactions denominated in foreign currencies occurred in the current financial year.

In order to manage ERWAT's exposure related to the procurement of goods or services denominated in a foreign currency, the Rand value is determined at the time of procurement, or where this not possible the Rand value will be determined as close as possible to the time of procurement.

33. Going concern

We draw attention to the fact that at 30 June 2017, the entity had an accumulated surplus of R1 511 832 480 and that the total assets exceed its liabilities by R1 511 832 480.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on the continued support of City of Ekurhuleni Metropolitan Municipality (parent municipality) by way of payment for service charges for the treatment of waste water and the provision of related engineering services. These are paid each year in terms of the service delivery agreement entered into between ERWAT and City of Ekurhuleni Metropolitan Municipality.

34. Irregular expenditure

Opening balance restated	183,481,469	118,771,759
Add: Irregular Expenditure - current year	903,491	25,319,026
Add: Expenditure incurred in the current year relating to a prior period	53,386,371	39,390,684
	237,771,331	183,481,469

Incidents currently under investigation

Inappropriate disqualification of quotation with a value less than R30 000	183,503	-
Construction contract extensions approved by a senior manager without the official delegated authority to do so	-	20,385,000
Contract extensions beyond the allowed 15% allowed for professional services related contracts by Circular 62 to the MFMA	684,858	-
Irregular expenditure incurred due to administrative errors	-	40,428
Lawnmower Repairs Not Correctly Combined In Terms Of Mscm Reg 12(3)	-	11,088
Office Supplies Not Correctly Combined In Terms Of Mscm Reg 12(3)	-	3,624
Oligonucleotides Where Not Correctly Combined In Terms Of Mscm Reg 12(3)	-	2,112
Business Card Orders Were Not Correctly Combined In Terms Of Msc Regulation 12(3)	-	3,751
Orders approved by a former SCM official in excess of his delegated authority	-	75,037
Less than three quotations obtain for transactions with a value less than R30 000	35,130	8,425
Lowest quotation not selected for transactions with a value less than R10 000	-	16,311
Training scheduled by former HR official without following SCM procedures	-	227,052
Documents removed from the ERWAT premises by a former SCM official	-	152,078
SCM Regulation 36(1)(V) not correctly applied	-	4,394,120
	903,491	25,319,026

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Figures in rands	2017	2016 Restated
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34. Irregular expenditure (continued)

Irregular expenditure arising from previous financial periods: Incidents currently under investigation

Irregular expenditure arising from the 2015/16 financial period, incurred in the 2016/17 financial period. The irregular expenditure relates to contracts extended by a senior manager without the delegated authority to do so	36,788,107	-
Irregular expenditure arising from the 2015/16 financial period, incurred in the 2016/17 financial period. The irregular expenditure relates to the incorrect use of Regulation 36(1)(v).	6,712,587	-
	43,500,694	-

Request for condonement approved by the accounting officer. Request for condonement has been submitted to National Treasury. Currently awaiting approval.

Irregular expenditure arising from the 2014/15 financial period, incurred in the 2015/16 financial period. The irregular expenditure relates to the incorrect composition of the Bid Adjudication Committee at the meeting held on 3 February 2015	9,885,676	-
Irregular expenditure arising from the 2014/15 financial period, incurred in the 2015/16 financial period. The irregular expenditure relates to the incorrect composition of the Bid Adjudication Committee at the meeting held on 3 February 2015	-	39,390,684
	9,885,676	39,390,684

35. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same Gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided the reasons for any deviations are recorder and reported to the next meeting and includes a note to the annual financial statements.

The details of the deviations disclosed were documented and reported to the board of directors.

The deviations incurred, as listed hereunder, have been approved

Emergencies	5,204,820	163,723
Sole suppliers	1,254,300	565,181
Impracticability	14,334,687	36,615,548
	20,793,807	37,344,452

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36. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	8,119,485	-	8,119,485
Trade debtors	-	117,701,576	117,701,576
Other receivables from exchange transactions	-	2,511,808	2,511,808
Cash and cash equivalents	-	157,781,702	157,781,702
	8,119,485	277,995,086	286,114,571

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	88,811,182	88,811,182
Long term borrowing - Current portion	55,250,765	55,250,765
Long term borrowing - Non-Current portion	549,753,950	549,753,950
Finance lease - Current portion	238,932	238,932
Finance lease - Non-Current portion	358,399	358,399
	694,413,228	694,413,228

2016

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	8,513,935	-	8,513,935
Trade debtors	-	76,536,084	76,536,084
Other receivables from exchange transactions	-	2,527,773	2,527,773
Cash and cash equivalents	-	305,353,331	305,353,331
	8,513,935	384,417,188	392,931,123

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	111,555,249	111,555,249
Long term borrowing - Current	34,320,812	34,320,812
Long term borrowing - Non Current	598,391,157	598,391,157
Finance Lease - Current	303,959	303,959
Finance Lease - Non-Current	597,329	597,329
	745,168,506	745,168,506

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Figures in rands	2017	2016 Restated
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36 Financial instruments disclosure (continued)

Financial instruments in Statement of financial performance

2017

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	16,311,677	16,311,677
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(63,616,207)	(63,616,207)
Debt impairment	(1,274,174)	(1,274,174)
Loss on fair value adjustment	(700,128)	(700,128)
	(49,278,832)	(49,278,832)

2016

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	13,048,316	13,048,316
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(51,996,653)	(51,996,653)
Debt impairment	(293,121)	(293,121)
Loss on fair value adjustment	(33,120)	(33,120)
	(39,274,578)	(39,274,578)

37. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	7,665	210,000
Current year expense	1,354,673	1,438,696
Amount paid - current year	(1,362,338)	(1,641,031)
	-	7,665

PAYE and UIF

Opening balance	20,990	(7,770)
Current year expense	38,264,038	34,002,316
Amount paid - current year	(35,121,099)	(33,973,556)
	3,163,929	20,990

Pension and Medical Aid Deductions

Opening balance	(22,997)	5,565
Current year deductions	60,783,598	52,750,472
Amount paid - current year	(60,753,570)	(52,779,034)
	7,031	(22,997)

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37. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	19,329,066	22,895,482
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All VAT returns have been submitted by the due date throughout the year.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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38. Budget differences

Material differences between budget and actual amounts

Note: The variances presented in this note compare the actual outcome as a percentage of the final budget.

Total Revenue - 112% achieved due to the following reasons:

Investment Revenue - 827% achieved

Interest received - Due to under spending on capital items ERWAT had a higher bank balance, which resulted in higher interest.

Dividends received - ERWAT had received 693% higher than budgeted amount for dividends, as projected dividend income is subject to estimation uncertainty.

Other own revenue - 161% achieved

Development contribution - An amount of R85 408 228 relating to development contribution was received to which ERWAT could not budget as there is no information to calculate a budget.

Total operating Expense - 97% achieved due to the following reasons:

Debt impairment – 2283% incurred due to

ERWAT has budget for a small impairment amount at the stage of preparing the budget, however with the change to a new accounting system we incurred a few challenges and therefore our impairment provision has increased significantly.

Depreciation and Amortisation - 140% achieved due to

ERWAT has performed an unbundling of assets which entailed a decrease of useful lives of assets. This resulted in depreciation increasing significantly.

Finance Costs - 130% achieved due to

The budgeted amount was based on prime interest at the date of the preparation of the budget, however due to an increase in the interest rate the finance cost increase is higher budgeted for. In addition the drawdown of the loan differed from the planned drawn down which also increased the finance cost.

Other expenditure - 86% achieved

ERWAT has reprioritised spending on other expenditure which resulted in a saving on expenditure.

Capital Expenditure - 86% achieved

ERWAT is still in the process of capturing accruals for assets this may result in a higher % achieved.

Net cash at the end of the year- 241%

The cash flow balance is higher than budgeted mainly due to under spending on capital items, saving on operating expenditures and the increase in the development contribution not budgeted for.

Sources of capital funds (Borrowing) - 2%

The need for external financing did not arise to the extent anticipated in the budget, resulting in reduced acquisition of loan finance.

EAST RAND WATER CARE COMPANY (ERWAT) NPC

Annual Financial Statements for the year ended 30 June 2017

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39. Utilisation of Long-term liabilities reconciliation

Outstanding long-term liabilities at the beginning of the year	632,711,970	405,291,348
Redemption of loans	(29,570,909)	(7,740,350)
Additional loans	2,093,580	233,059,731
Interest accrued	(229,925)	2,101,241
	605,004,716	632,711,970
Used to finance property, plant and equipment	(600,484,738)	(627,962,066)
Interest Accrued	4,519,978	4,749,904

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Outstanding long-term liabilities

Opening balance	632,711,970	405,291,349
Capital	(27,477,329)	225,319,380
Year end interest accrual	(229,925)	2,101,241
	605,004,716	632,711,970

40. Comparative figures

The entity elected to apply the Municipal Standard Chart of Accounts classifications in the financial statements to improve the relevance of the information provided herein. The following changes were made to the comparative figures:

Repairs and maintenance (R104 2a57 657), General expense - Cleaning (R572 436) and Consumables (R836 724) have been restated and named - Repairs and maintenance, cleaning and consumables (R105 666 817).

Other income - Housing and Leases (R178 682), Other income - Commercial business (R21 526 671), Other income - Laboratory (R12 383 563), Other income - Operations (R734 421) and Other income - Technical (R74 457 483) have been restated to Other income from Commercial Business (R109 280 820).

Income statement - (Loss)/ Gain on fair value adjustment (R33 120) - previously was disclosed in the income statement on the Income section, this has been restated to the Expense section and renamed Loss on fair value adjustment (R33 120).

Trade debtors from exchange non-exchange transactions:

During the prior year ERWAT had disclosed gross trade debtors from exchange transactions and allowance for impairment under the following categories:

Business development receivables	R7 509 588
Laboratory receivables	R1 757 604
Sundry receivables	R 756 416
Operations receivables	R 113 413
Business development -provision for bad debts	-R1 263 746
Laboratory - provision for bad debts	-R1 345 706
Sundry - provision for bad debts	-R 339 670

This has since been changed and all income and impairments has been disclosed to Commercial business receivables as below

Commercial business receivables	R10 137 021
Commercial business - provision for bad debts	-R2 949 122.

This aging of the trade debtors from exchange transactions and impairment was also previously disclosed between Business development, Laboratory, Sundry and Operations, which is now disclosed on the aging as Commercial Business. This has no affect to the balance sheet only the note to the balance sheet.

The effects of the reclassification are as follows:

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Notes to the Annual Financial Statements

Figures in rands	2017	2016 Restated
40. Comparative figures (continued)		
Statement of Financial Performance		
Repairs and maintenance	-	(104,257,657)
General Expense	-	(1,409,160)
Repairs and maintenance, cleaning and consumables	-	105,666,817
(Loss)/ Gain on fair value adjustment	-	(33,120)
Loss on fair value adjustment	-	33,120
	-	-
Note - Other income		
Housing and Leases	-	(178,682)
Income: Commercial Business	-	(21,526,671)
Income: Laboratory	-	(12,383,563)
Income: Operations	-	(734,421)
Income: Technical	-	(74,457,483)
Other income from Commercial Business	-	109,280,820
	-	-
Note - Trade debtors from exchange and non-exchange transactions - (Previously)		
Business development receivables	-	7,509,588
Laboratory receivables	-	1,757,604
Sundry receivables	-	756,416
Operations	-	113,413
Business development - provision for bad debts	-	(1,263,746)
Laboratory - provision for bad debts	-	(1,345,706)
Sundry - provision for bad debts	-	(339,670)
	-	-
Note - Trade debtors from exchange and non-exchange transactions - (Currently)		
Commercial business receivables	-	10,137,021
Commercial business -provision for bad debts	-	(2,949,122)

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Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

41. Member and executive managers emoluments

	Salary or Fee	Long service award	Medical Contributions	Travel allowance/ claim	Telephone and data card	Retirement fund contribution	Total package 2017	Total package 2016	
Non-Executive Members									
EM Phasha (Deceased - October 2015)	-	-	-	-	-	-	-	-	71,788
MM Mochatsi	299,371	-	-	-	10,186	19,200	-	328,757	353,471
N Koni	299,371	-	-	-	8,380	19,200	-	326,951	288,958
J Mojapelo - (Chairperson until 31 May 2017)	375,111	-	-	-	1,806	17,600	-	394,517	391,115
K Wall	299,371	-	-	-	7,037	19,200	-	325,608	289,236
L Bokaba	299,371	-	-	-	15,372	19,200	-	333,943	291,208
D Coovadia	299,371	-	-	-	10,556	19,200	-	329,127	290,291
EE Themba	299,371	-	-	-	12,223	19,200	-	330,794	292,509
CJ Cornish (Chairperson from 1 June 2017)	308,524	-	-	-	12,316	19,200	-	340,040	293,449
Total	2,479,861	-	-	-	77,876	152,000	-	2,709,737	2,562,025

EAST RAND WATER CARE COMPANY (ERWAT) NPC

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Notes to the Annual Financial Statements

41. Member and executive managers emoluments (continued)

	Salary or Fee	Long service award	Medical Contributions	Travel allowance/ claim	Telephone and data card	Retirement fund contribution	Total package 2017	Total package 2016
Chief Executive Officer								
NP Twala (retired 30 June 2016)	-	-	-	-	-	-	-	1,807,518
T Gopane (Chief Executive Officer from 01 September 2016)	1,209,128	-	28,053	-	43,578	171,306	1,452,065	-
FM Mabunda (Acting Chief Executive Officer until 31 August 2016) - H.O.D Operations	168,160	22,931	14,053	24,000	6,800	33,632	269,576	-
Subtotal	1,377,288	22,931	42,106	24,000	50,378	204,938	1,721,641	1,807,518
Executive Managers								
WI Louw - Finance (H.O.D)	1,063,272	32,560	101,224	102,000	40,800	215,852	1,555,708	1,453,049
TS Mhlongo - Technical (H.O.D Resigned - 30 September 2015)	-	-	-	-	-	-	-	373,965
F Raseruthe - Technical (acting H.O.D - Resigned 30 June 2016)	-	-	-	-	-	-	-	884,761
FM Mabunda (Acting Chief Executive Officer until 31 August 2016) - H.O.D Operations	882,689	-	75,279	120,000	34,000	167,314	1,279,282	1,397,444
M Tsotetsi - Commercial Business (H.O.D)	976,123	-	89,332	48,000	40,800	198,163	1,352,418	1,290,375
RW Barnes - Human Resources (H.O.D)	1,093,997	-	68,612	78,000	40,800	222,116	1,503,525	1,434,306
JW Wilken - Development (H.O.D Retired - 30 November 2015)	-	-	-	-	-	-	-	1,237,980
A Chapman - Laboratory (H.O.D) - (Acting Technical H.O.D - until September 2016)	931,272	-	82,532	30,000	40,800	186,048	1,270,652	1,198,394
ZZ Socikwa - Company Secretary	952,413	-	29,220	110,000	37,400	68,821	1,197,854	-
LT Roode - Operations (Acting H.O.D)	212,850	-	16,188	12,000	6,000	43,769	290,807	-
K Nthethe - Development (Acting H.O.D - July 2016 - August 2016)	139,228	-	7,905	12,000	4,000	9,452	172,585	-
EM Khomela - Development (Acting H.O.D - September 2016 - June 2017)	726,455	-	28,547	65,000	20,000	87,761	927,763	-
E Mutyaba - Technical (Acting H.O.D - from January 2017)	373,360	-	36,500	12,000	12,000	48,929	482,789	-
Subtotal	7,351,659	32,560	535,339	589,000	276,600	1,248,225	10,033,383	9,270,274

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42. Fruitless and wasteful expenditure

The expenditure, as listed hereunder, have not been approved/condoned

Opening balance	562,178	562,178
Closing balance	562,178	562,178

During the 2016/17 financial year ERWAT did not incur any fruitless and wasteful expenditure.

43. Events after the reporting date

The calculation on Bad debts provision was calculated based on amounts received from debtors after the 30 June 2017. The total amount received from debtors after the 30 June 2017 amounted to R6 149 772, which was used when calculating bad debts provision.

44. Repairs and maintenance, Cleaning and Consumables

Repairs and maintenance, Cleaning and Consumables	98,469,794	105,666,806
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45. Change in estimate

Property, plant and equipment

There was a change in useful lives review which had the following impact:

Property, plant and equipment

Depreciation expense before remaining useful lives review	R19 325 539
Depreciation expense after remaining useful lives review	R34 933 034
Future increase in depreciation due to review	R15 607 495

Intangible assets

Amortisation expense before remaining useful lives review	R7 101
Amortisation expense after remaining useful lives review	R5 326
Future increase in Amortisation due to review	(R1 775)

46. VAT receivable

VAT	19,329,066	22,895,482
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